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C O N F I D E N T I A L SECTION 01 OF 05 COLOMBO 001867

SIPDIS

DEPT FOR SA/INS: MGOWER AND CSIM;
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E.O. 12958: DECL: 11/17/2015
TAGS: [EAGR](#) [ECON](#) [ETRD](#) [PGOV](#) [PREL](#) [CE](#)
SUBJECT: PRESIDENTIAL PLATFORMS HIGHLIGHT STARK ECONOMIC
CHOICES FOR SRI LANKAN VOTERS

REF: COLOMBO 1853

Classified By: AMBASSADOR JEFFREY J. LUNSTEAD, REASONS 1.4 B,
D AND E

11. (C) Summary: The Sri Lanka presidential candidates have released their election "manifestos" (platforms). Both have clearly learned the lessons of the April 2004 parliamentary elections, in which the rural vote proved decisive, and have included significant benefit increases for the rural sector. The manifestos offer a clear choice for Sri Lankan voters between the private sector-led economic policies of the opposition leader, United National Party (UNP) leader Ranil Wickremesinghe and the state-led approach of the current Prime Minister, Sri Lanka Freedom Party (SLFP) candidate Mahinda Rajapakse. While both sides promise significant benefits, many observers point out that the cost of these promises makes their ultimate implementation unlikely. The US would find it easier to work with a Wickremesinghe administration's economic team, given their private sector focus and sound approach to macroeconomic policy, but we have worked well with the SLFP-led current government and would continue to pursue every opportunity to influence a Rajapakse government to adopt sound economic policies. A range of instruments, including the Millennium Challenge Account, our Trade and Investment Framework Agreement, and other cooperative endeavors give us continued leverage regardless of who wins on November 17. End Summary

12. (U) Sri Lankan Opposition Leader Ranil Wickremesinghe and Prime Minister Mahinda Rajapakse, the United National Party and Sri Lanka Freedom Party presidential candidates respectively, have issued their presidential "manifestos" (platforms). The documents, and the surrounding "spin" efforts by the candidates' spokespersons, provide insight into the type of policies each candidate will undertake if elected, even after the "pie in the sky" rhetoric is stripped away. Political aspects of the manifestos reported refTel.

Lessons Learned from 2004

13. (C) Both candidates' manifestos incorporate lessons learned from the April 2004 general elections. In these elections, Wickremesinghe's UNP party was soundly defeated largely as a result of a backlash of voters outside the country's main business center, the Western Province, which houses the capital city Colombo. While Wickremesinghe's government had initially taken bold steps to jumpstart the economy and reduce the size and scope of the state's involvement in people's lives and businesses, he trampled too hard on two fundamental perceptions. First, his negotiations with the Liberation Tigers of Tamil Eelam (LTTE) terrorist group, which included the possible devolution of greater powers and autonomy to regional governments, challenged some Sri Lankans' views of their country as a unitary, multi-ethnic democracy. Second, he challenged many of the core statist traditions in Sri Lanka, suggesting that the country needed to adopt a more western-oriented, capitalist approach to its economy. While his policies led to growth in the Western Province, they did not translate into higher incomes and higher standards of living for rural and small-town Sri Lankans (Note: partly as a result of his tenure being cut short by President Kumaratunga's dissolution of parliament and call for new elections. End Note). Wickremesinghe's handlers recognize this mistake and are trying to create a more populist image, and are counseling the candidate to temper his market-friendly rhetoric. He may also take a more measured approach to reform, if elected. Rajapakse, on the other hand, has a strong statist bent and is painting himself as the candidate most in touch with the needs of the Sri Lankan commonweal.

Real Choices for Voters

14. (C) On the economic policy front, the documents make clear that Sri Lankans are faced with a distinct choice, between a reform-minded, market-oriented Ranil Wickremesinghe who favors

private sector solutions and a more statist-oriented, slightly protectionist Mahinda Rajapakse, who sees the private sector as something in need of government assistance and coddling.

15. (U) Sri Lankan voters have the advantage of having seen both economic policy teams in action over the past two years. During Wickremesinghe's tenure as Prime Minister (from 2001 to mid-2004), inflation dropped to less than 5 percent, unemployment began to fall, export-led growth picked up considerably and fiscal policy began to moderate. Under the past 18 months of the SLFP-led government, negative externalities such as the tsunami and increasing oil prices have contributed to rapidly rising inflation. The rising inflation also stemmed from the Government's refusal to moderate petroleum subsidies, freeze the size of the government bureaucracy and sufficiently raise interest rates. Inflation has only just begun to taper off at about 13 percent. While growth has continued to be strong (forecast at 5.2 percent for 2005), it has come at the expense of fiscal responsibility and through continued Government interventions - particularly through subsidies and easy credit to state-owned enterprises.

16. (SBU) Neither candidate has proposed a significant dismantling of the bloated government bureaucracy. Nonetheless, the documents make clear that Wickremesinghe would pursue smaller government and private-sector led employment programs, while Rajapakse's manifesto contains numerous promises of new government programs, subsidies and welfare benefits.

17. (C) Rajapakse's hands are somewhat tied (as the current government's have been) since he forged an alliance with the Marxist-Nationalist Janatha Vimukthi Peramuna (JVP) and is surrounded by an economic team that includes a strong statist-oriented economist, a well known market-oriented consultant, a JVP representative and the leader of the Buddhist monk party. While some advisors have suggested that once in office Rajapakse would be able to ignore the demands of the JVP and other "partners," they have nonetheless had a strong influence over the manifesto.

Economic Growth -----

18. (U) Wickremesinghe pledges to achieve 10 percent economic growth per year or ten years, doubling economic prosperity and incomes over the next decade (Note: we assume the UNP has decided to simplify this equation for the voters, as 10 percent growth would require just over 7 years to double GDP. End Note). Rajapakse pledges 8 percent growth over 6 years. Most economists suggest that Rajapakse's goal is more realistic, but that the increase in spending his plan portends will crowd out private investment and could prove even more inflationary than the current situation.

19. (SBU) Wickremesinghe's manifesto is reminiscent of his previous government's poverty reduction and growth facility plan entitled "Regaining Sri Lanka." It includes a focus on infrastructure development, private sector-driven growth, sound macroeconomic policies, including deficit reduction, and a strong orientation toward liberalized trade.

Structural Adjustments -----

110. (C) Wickremesinghe does not dwell on structural changes, but his party's stance on state-owned enterprises and their drag on fiscal policy is clear. A Wickremesinghe Government would probably champion privatization of certain entities, in line with his previous initiatives as Prime Minister. Given the political sensitivity of privatization, however, we would expect a gradual approach.

111. (C) Rajapakse clearly states throughout the manifesto that he is opposed to privatization of key enterprises, and specifically promises not to privatize the electric utility company and the Ceylon Petroleum Corporation. Privately, however, his key economic advisor recently suggested to Econchief that he would favor minority equity holders being empowered with management authority.

Employment -----

112. (U) On the question of employment, while Rajapakse offers a specific number of Government jobs to be filled the first year, Wickremesinghe's document merely pledges a program to assist unemployed graduates in finding jobs in either the public or private sector. Wickremesinghe promises the creation of 200,000 jobs per year, but does not specify in which sector and clearly views the private sector as the primary engine of employment and economic growth.

113. (U) Rajapakse, on the other hand, specifically promises not to "prune the public sector" during his tenure - given that

it is the preferred employment option for many Sri Lankans. He promises significant public sector-driven employment initially, including additional government jobs for 10,000 university graduates and the expedited hiring of 33,000 additional public servants to fill vacancies. He promises permanent appointments for all government employees on temporary contracts (to solidify the support of the 35,000 plus university graduates hired by the GSL over the past 18 months). He also promises 50,000 jobs for youth in 2006 and 100,000 in 2007.

Welfare Benefits

¶14. (SBU) Both sides promise extensive welfare benefits. Wickremesinghe's plan is far less specific, but more progressive and market oriented, with promises to increase food stamp value; institute welfare reform to target assistance and establish limits on how long people can draw on the system; develop the equivalent of a blue ribbon school program; increase the role of communities in education development; establish a private bank-driven home loan scheme; and provide a village based development fund, among other pledges. In what may turn out to be a poor marketing ploy, however, Wickremesinghe is trying to recast the name of the welfare program (currently "Samurdhi" in Sinhala) to Siya Saviya (roughly translated as "Personal Ability"). The SLFP is taking advantage of this switch to claim that Wickremesinghe's failure to mention "Samurdhi" shows he intends to make massive cuts in the food stamp program.

¶15. (U) Rajapakse's plan includes a 50 percent increase in welfare payments, the doubling of Government payments to families in the event of the death of a family member (USD 50 to USD 100) and the doubling of the Government's allowance for the birth of a child (USD 25 to USD 50). He also outlines numerous housing programs for different sectors.

Agricultural Sector

¶16. (SBU) Both manifestos reflect lessons learned in the April 2004 general election, when it was clear that economic growth that did not translate into improved rural standards of living cost the UNP the election. Wickremesinghe's manifesto, while market oriented, pro-globalization and far more sound in its macroeconomic approach, nonetheless contains promises that are specifically aimed at the rural poor and middle class, including fertilizer subsidies (though far smaller than Rajapakse's) and guaranteed prices to farmers for rice and dairy production.

¶17. (U) Rajapakse's plan for agriculture includes a focus on irrigation improvements and the provision of land to tenant farmers, fertilizer and seed subsidies, forgiveness of cultivation loans, guaranteed commodity prices, import substitution policies, marketing efforts to increase rice consumption, protection of domestic crops through import restrictions, guaranteed minimum prices for farmers and assistance for storage of local crops in regional centers.

¶18. (U) Under Rajapakse's plan, every village in the country would be guaranteed electricity, telecommunications infrastructure, clean drinking water, irrigation water, access roads, schools, health center, market center with agricultural cooperative, rice and fertilizer storage facilities, a factory, a pre-school, a playground, a village forest and a cemetery. In short, the Prime Minister is promising government largesse from cradle to grave.

¶19. (C) Dinesh Weerakoody, an advisor to Wickremesinghe and former member of the Economic Policy Council under the last UNP government, told Econchief recently that the rural sector needs to be appeased, and that the UNP would pledge the minimum it needed to win, but would exercise prudence once in office.

Rajapakse's chief economic advisor, on the other hand, told Econchief that the PM's approach would be one that focuses explicitly on rural development and that would require significant government intervention.

Furthermore, Rajapakse needs to appease his JVP partners at this stage of the campaign, he said.

Comment

¶20. (SBU) While Rajapakse's team is obviously gunning for the rural vote, Wickremesinghe is clearly counting on current dissatisfaction over the rising cost of living and unemployment to drive a backlash against Rajapakse and his association with the current government.

¶21. (C) Through analysis of the manifestos, we can foresee some implications for US policy, though ultimately neither manifesto is binding, and, as many observers are pointing out,

the state does not have the money to pay for either platform. Should Rajapakse win, there is no question that we will continue to see an unabashed focus on the rural sector. We can expect the current emphasis of the Millennium Challenge Account compact proposal to remain on rural irrigation and small and medium enterprise development and a continued growth in government size and scope. Rajapakse's comfort with protectionist policies will hurt small segments of US exports to Sri Lanka (consumer goods, agricultural products), though investment goods, which comprise the bulk of US sales to Sri Lanka, will likely remain duty-free, as both Governments would likely want to support investment in the continued development of the export sector. Sri Lanka will continue to harbor hopes for a free trade agreement with the US, but keep its topic approach to an FTA as merely a means of promoting duty-free access for garments to the US.

122. (C) Should Wickremesinghe win, we would expect a sharp upturn in requests for advisors and assistance. By contrast, Rajapakse's key advisors have criticized the use of foreign advisors in government ministries. We would expect requests to expand our Treasury Advisor program to include an additional budget advisor, to see our debt management program accelerate and could receive additional requests for a Treasury Advisor on tax administration. While the MCA compact proposal may maintain its rural focus, it would likely be amended to include numerous new policy shifts, such as private sector agricultural extension services, enhanced communication infrastructure and improved information and market mechanisms to provide farmers with greater access to price information and reduce their reliance on middle men. We would expect to see more prominent Sri Lankan support in the WTO for US positions, partly with a view toward extracting duty concessions for Sri Lankan apparel entering the US.

123. (C) The US would find it easier to work with a Wickremesinghe government since they have an economic policy that more closely aligns with US policy and is more likely to support US goals in Sri Lanka. That said, we have worked effectively with the SLFP-led Government for the past 18 months; it simply requires more patience and creative thinking. There are areas where we share common goals with the SLFP, but have different approaches to attaining those goals. These goals include continuation of the peace process in order to improve prospects for prosperity; development of the rural sector, including increased incomes for rural families; and, an environment conducive to the growth and development of small and medium enterprises, which form the backbone of economic activity, and targeted investment and fiscal responsibility. Despite divergent paths on how to reach these goals, we nonetheless have a number of options, including carrots and sticks in the form of MCA programs, MCA eligibility, our Trade and Investment Framework Agreement dialogue, Megaports and Container Security Initiative programs, and USAID Economic Growth programs, from which we can draw in pursuing our interests regardless of who wins the election. End Comment
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